

MINUTES

**MONTANA SENATE
59th LEGISLATURE - REGULAR SESSION**

JOINT SELECT COMMITTEE ON EDUCATION FUNDING

Call to Order: By **CHAIRMAN DON RYAN**, on February 16, 2005 at 8:05 A.M., in Room 335 Capitol.

ROLL CALL

Members Present:

Sen. Don Ryan, Chairman (D)
Rep. Bill E. Glaser (R)
Rep. Holly Raser (D)
Sen. Bob Story Jr. (R)

Members Excused: None.

Members Absent: None.

Staff Present: Connie Erickson, Legislative Branch
Eddy McClure, Legislative Branch
Lois O'Connor, Committee Secretary
Jim Standaert, Legislative Branch

Please Note. These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Continued discussion on education funding.

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Lance Melton, MT School Boards Association (MTSBA), provided an Augenblick & Myers study entitled Calculation of the Cost of a Suitable Education in Montana in 2001-2002 Using the Professional Judgement Approach; School Site Collection Instruments used to create the Augenblick & Meyers study, and information that took certified full time employees (FTE) from fiscal year 2004 and calculated the applicable mills into dollar tax increases for communities and balanced it with money that would be redistributed to communities through K-12 SHIP.

[EXHIBIT\(jes38a01\)](#)

[EXHIBIT\(jes38a02\)](#)

[EXHIBIT\(jes38a03\)](#)

Mr. Melton said that the calculation on classified staff was done at the 38% level not the 25% level as shown for a fiscal impact of \$47.3 million for K-12 SHIP. **(See Exhibit(3))** He felt it useful for the Subcommittee to see what tax increases occur from using HB 124 block grant money in terms of mills, translate that into dollars, and compare it to dollars that would come to those same communities through K-12 SHIP.

Jim Standaert, Legislative Fiscal Division (LFD), requested further explanation. **Mr. Melton** said that information provided at the February 15, 2005, meeting showed the mills and the total tax dollars for certain school districts. The total tax dollars were rolled up but the chart did not specify the dollar tax increase for those districts. He said that an additional column should be added showing the dollar tax increase compared to the increased funding that the same districts would receive from K-12 SHIP to identify the net effect on each district.

SEN. ROBERT STORY, SD 30, asked how the estimated amount per district were calculated if HB 124 block grants are used to fund K-12 SHIP. **Mr. Melton** said that he took fiscal year total certified FTE, added the fiscal year 2004 classified estimate at 38% of certified FTE, and added \$2,400.

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SEN. DON RYAN, SD 10, asked if the 38% was an educationally relevant number when talking about classified staff. **Madalyn Quinlan, Office of Public Instruction (OPI)**, said that there is nothing in the accreditation standards that is going to drive how many classified staff a school district employs. However, there are some situations where districts might contract out to provide services, such as food and janitorial service. She was unsure of

the background of the 38%. **Mr. Melton** added that certified staff includes para-professionals. OPI collects information on para-professionals but not food service workers. **Ms. Quinlan** said that the total figure for certified staff--those people with educator licenses--is closer to 12,000 which suggests that Montana has approximately 2,200 para-professionals.

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Mr. Melton said that the potential cost of HB 124 is between \$43 million and \$48 million because there is no perfect guess about how many employees regularly work 30 hours or more and how many districts have lower thresholds in their existing collective bargaining agreements for coverage for those employees. There is some estimation on where that number will fall. **SEN. RYAN** asked who is included in the FTEs. **Mr. Melton** said all positions specifically referenced in the accreditation standards.

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SEN. STORY asked if the FTEs included federal employees. **Ms. Quinlan** said that schools are reporting teaching and administrative assignments. If someone is employed as a certified para-professional, they will not show up in the teacher column.

Eric Feaver, MEA-MFT, asked if it included federally funded employees. **Ms. Quinlan** said that OPI does not know the funding source of employees because it does not collect salary information. It knows the total of what schools pay for instructional salaries from federal sources, but it does not know the salaries of individual teachers. She added that it is probably data that should be collected, but OPI has not had the resources to do it.

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REP. WILLIAM GLASER, HD 44 asked if someone was planning to take the HB 124 block grant money and use it to fund K-12 SHIP. **Mr. Melton** said that if HB 124 block grant money is used in a way that does not expand budget authority or expand state funding that districts can use to mitigate cuts, school districts are going to be very much opposed to that concept. K-12 SHIP, in terms of being fully funded at 80%, does not have the problems associated with under-BASE taxes, and it has the weightedness associated with the fact that smaller schools have smaller classrooms. He suggested that the HB 124 block grant should be used to fund K-12 SHIP.

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SEN. RYAN felt it inappropriate to suggest that a legislator is contemplating that this be done. **Eddy McClure, Legislative Services Division**, said that she is preparing an amendment for a legislator who is not on the Subcommittee to use the HB 124 block grant to pay for K-12 SHIP. **SEN. GLASER** said that if the HB 124 block grant is taken away from schools, the millage changes from district to district is huge. **SEN. RYAN** said that the state is currently distributing the HB 124 block grant in an inequitable fashion, and it has to be corrected. When that part has to be corrected, in what manner will that money be redistributed to schools to get the best utilization of the funds.

Ms. Quinlan said that OPI can look at individual school districts and see if their mills will increase and by how much, but it should be compared to how they are going to shift relative to an average BASE-budget mill and separate elementary BASE-budget mills from high schools. **Mr. Melton** felt that the Legislature would want to know, if it is causing a tax increase of \$100,000, how much of the \$100,000 goes back to the school district and whether it be through K-12 SHIP, direct state aid (DSA), GTB, or BASE aid.

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REP. GLASER noted that the \$45.399 million that is distributed in block grant money matches exactly what is needed in the second half of the biennium for K-12 SHIP. If the state were to do that at this moment, people in the rural areas would come unglued.

SEN. RYAN said only if they are alarmed by someone who does not give them the full story, such as if there are health insurance costs in the very small districts because of their inability to pool, they may find that they are using the block grant money in an inefficient way. He added the Subcommittee must look at what the long-term impacts will be when it determines its new funding formula.

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Mr. Feaver said that at no time or in any context did MEA-MFT think that HB 124, as it is known in K-12 SHIP, was going to sail over HB 124 from a previous session. It is pure serendipity that the dollars that could be claimed from HB 124 from the 2001 block grant are almost identical to what the cost of HB 124 is within K-12 SHIP. It just goes to show that someone else is in charge, but it is not MEA-MFT. This is an accident of circumstances and purely coincidental. MEA-MFT did not introduce HB 124 with the notion that it would be paid for in any way other than from a general fund appropriation. He felt that **Mr. Melton** has come up with a creative way of looking at not just the health care issue

but the inequity of how the block grant money is distributed. However, he would prefer that HB 124-K-12 SHIP be paid out of the general fund. He would not want to kill K-12 SHIP over a block grant controversy. He also believed that in time, if the state does not fix the block grant issue, someone will make an issue out of it no matter what.

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SEN. STORY said that the Subcommittee needed an analysis because it could sit and speculate about what is going to happen and not get anything done. He said the Legislature tried to distribute the block grant funds in formulas that were not acceptable. He wanted to see an analysis of what would happen if the funds were put through a per-teacher formula or a \$2,400-a-year-per-employee type formula.

Jack Copps, MT Quality Education Coalition (MQEC), said that the block grant discussion is the most important discussion that the Subcommittee could have. The funding formula is simply a distribution mechanism, and the very core of distribution ought to be the principle that the state share is going to be distributed in an equal manner. If there is money in the state share that is not equally distributed, it needs to be corrected.

Mr. Copps had no recommendation on how the block grant money might be used.

Mr. Melton said another element, although smaller and a bigger mess, that the Subcommittee should be aware of is that there is approximately \$6.89 million being distributed every year across all budgeted funds--10 or 12 funds. There are 455 school districts or 4,500 distributions of \$6.89 million. Whereas the big distribution that the Subcommittee is discussing is \$43 million distributed across 455 school districts' general funds. If the Legislature rids itself of these non-general fund, HB 124 block grant reimbursements, it would free up \$14 million and it would be well on its way to funding K-12 SHIP in this session.

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Referring to the educator model suggested by **SEN. STORY, Ms. Quinlan** said that if \$2,400 were put toward the per-educator entitlement, it will only reflect the 14,000 FTE. Classified staff is not included in the per-educator model. **Mr. Feaver** said that tax dollars go for the same purpose, but there is a huge divide in how the Legislature has to look at those employees that were hired in the areas where the district chose to privatize those services. **Mr. Melton** said that school districts that contract out for services are not subject to prevailing wage so

they are saving the money associated with that decision or they would not have made the decision in the first place. He finds it a self-solving issue.

SEN. STORY asked if **Mr. Melton** was also talking about the county-wide miscellaneous funds. **Mr. Melton** said no, that county-wide funds are distributed across budgeted funds of the school district rather than the county distribution. **Mr. Standaert** asked how **Mr. Melton** came up with \$7 million. **Mr. Melton** said he looked at the Governor's \$81.22 million spreadsheet that had \$6.89 million distributed across other remaining budgeted funds. The spreadsheet shows \$6.89 million and \$6.94 million annually. The facility increase over the biennium is approximately \$7 million. If the Legislature took ANB averaging, and found it to be appropriate, there would be another \$14 million. The result is approximately \$35 million toward \$47 million. If the Legislature added \$12 million to the \$81.22 million Governor's package, K-12 SHIP would be fully funded. **SEN. STORY** was still reluctant to tell **Mr. Standaert** to take the staffing numbers and the revenue available and apply it that way without fully understanding whether the districts are contracting people out or not.

SEN. RYAN said the Subcommittee had to look at the figures in the long term--how the money is brought into the districts and the distribution of the funds. He did not want the Subcommittee to get bogged down in debating current legislation. **Mr. Melton** requested that he meet with financial analysis staff to sort out how to provide the information in a variety of formats.

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SEN. RYAN said that he talked with **SEN. STORY** as to whether their model could use both a facility and building entitlement along with a student entitlement. **Ms. Quinlan** provided a survey that shows what schools are spending in total on building operation and maintenance in 2004.

EXHIBIT(jes38a04)

Mr. Melton asked if operations and maintenance figures included all building reserves. **Ms. Quinlan** said that it included everything but the bonds. When OPI chose the size-category groups, it was looking at natural breaking points. It has not been reevaluated, and it now has 10 years of trend data using the categories.

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SEN. RYAN said that maintenance and operation costs must be paid. He asked if staff was included in the cost. **Mr. Melton** said that OPI allows for the inclusion of janitorial staff paid by a building reserve levy. **Ms. Quinlan** added that buildings' operation and maintenance includes all activities associated with operating and maintaining the physical plant, equipment, and grounds which is separate from debt services and facilities and bonds--debt service being paying off the bonds and facilities and bonds being facilities acquisition, construction services, and debt service payments.

Mr. Melton said that years ago, OPI had a policy against allowing the inclusion of any salaries paid by building reserve levies. It changed the policy when MTSBA pushed the point in terms of what the building reserve levy statute provided. Currently, school districts are including, in some instances, a portion of the building reserve levy. **SEN. RYAN** viewed maintenance and operations costs as fixed costs for school districts that do not go away as students come in and leave. Districts receive very little flexibility in that budget other than to allow maintenance to deteriorate. He felt that the state had to give schools money to cover the fixed costs so that they do not have to take money out of educational programs. **Mr. Melton** said that the data is good for a preliminary basis, but cost adjustments need to be made to provide variations.

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SEN. RYAN also maintained that the numbers in the survey related to instruction showed the state's inability to recruit and maintain teachers. **REP. HOLLY RASER, HD 98**, noted the huge difference in the turnover of teachers in rural areas. **Mr. Copps** said that it is true that teachers try to move to larger communities. However, there was a time when teachers assumed that their careers would begin in a smaller community. This has changed, and there are a number of people who do not enter the teaching profession because they are unable to find a position in the community of their choice. Smaller communities are at a greater disadvantage than he has ever known in their ability to recruit and retain teachers. It is essential that they be provided incentives that will cause them to come back into the market place. If the state wants its small communities to have viable educational infrastructures, it needs to ensure that those districts can recruit good teachers. **Mr. Copps** added that even if the state raised beginning teacher salaries to \$30,000 a year for rural districts, it would not increase the number of teacher applicants proportionately to those in larger schools.

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Mr. Feaver provided benchmarks on MEA-MFT's current and consumer price indexed (CPI) BASE and maximum scheduled salaries, an article from the AFT News Release indicating Montana's beginning teacher salaries as the lowest in the nation, and a report of school statistics update from the National Education Association's (NEA) Rankings & Estimates.

[EXHIBIT\(jes38a05\)](#)

[EXHIBIT\(jes38a06\)](#)

[EXHIBIT\(jes38a07\)](#)

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REP. GLASER asked about the average benefits related to the \$36,000 average starting teacher salary. **Mr. Feaver** said that **Tom Bilodeau, MEA-MFT**, could give a better answer. **REP. RASER** asked how Montana's benefits compare to the northern-tier states. **Mr. Feaver** said that states with whom Montana competes, Nevada, for example, not only starts at a higher salary, it pays full-family medical in every school district while Wyoming has a 2% multiplier of a final average salary for retirement. With two exceptions, Wyoming's employer school districts pay the entire employee contribution to that system.

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SEN. STORY asked if Montana's teacher retention problem was any worse than any other state's and, if so, what would the solution be because the solution will determine the cost. **Mr. Feaver** said that MEA-MFT had legislation in both the 2001 and 2003 Sessions that would have paid \$12,000 over a 4-year period for education loans. The only requirement was that the teachers would commit themselves to a high-demand, low-supply positional place. Both bills were minimal in cost. It may not have kept the teachers in the rural areas, but it would have brought them there.

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SEN. RYAN said that 25 years ago, the percentages spent on pupil instruction were different. Because of equalization and the caps, small districts did not have the ability to pay teachers because they were locked into paying for facilities. He asked if information could be made available showing a classroom-entitlement model that was based on district size. The entitlement would fund an appropriate salary from the state level and meet the accreditation standards. Then the Legislature could deal with retirement, benefits, and health insurance. The classroom entitlement model could then be roll out over time.

SEN. RYAN suggested that rather than paying teachers more for years spent, use the tiered-licensure approach. **Mr. Melton** said that could be achieved without mandates by simply making a policy decision among legislators as to where they want certain targets for teacher.

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REP. RASER asked if the target would be based on actual teaching staff and where they are in broad categories or would the targets be based on the amount of experience they have. **Mr. Melton** said that the Legislature could agree on some benchmarks that would appropriately categorize school staff in enough categories to be manageable but would also provide some flexibility. For example, a beginning teacher through the fifth year gets X-amount; a teacher with BA+45 gets X-amount; and a teacher greater than that, up to MA+15 or greater, receives X-amount. He did not believe that the Legislature would have to create an entirely new teacher salary structure. **REP. RASER** felt that it would have to be based on who the schools currently have hired. She said part of the problem is that the state gives funding to schools based on what they have in the previous year. For example, if a teacher retires, schools will receive funding for a replacement teacher that is at a high-level education rate. **Mr. Melton** said that MTSBA does not oppose policy decisions made by the Legislature on targets that will result in the distribution of money. It has, however, always had a problem with a statewide- salary schedule that is never really a statewide-salary schedule because schools still have the obligation to collective bargain beyond it. He felt it more practical to have OPI provide the Legislature with four or five categories and make a decision on how it wants to distribute the money.

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SEN. RYAN wanted to ensure that if staff brings the Subcommittee information and if there are problems, how is the Legislature going to justify it because it is not educationally relevant. **Mr. Feaver** said that educational relevance is not needed to pay teachers. The state can use benchmarks for more than a guideline. School districts can then collective bargain and say that the Legislature has said this is all the funding that the state is going to pay because this is a benchmark established by the Legislature. The Legislature may begin by saying this is a minimum amount to pay teachers, but it becomes a maximum amount during the bargaining process. Now, the Legislature has put dollar amounts in statute. Is that what it wants? Once that is done, the Legislature is going a statewide, salary schedule route. In addition, **Mr. Feaver** said it is not just school boards

that are opposed to statewide salary schedules. He felt that teachers in Helena would revolt over the notion that their salary schedule would be controlled by a place like Ryegate, for example. This is why any statewide-salary schedule proposal that MEA-MFT has been involved with has allowed bargaining beyond the schedule. If the Legislature does not allow bargaining beyond, it is, in fact, equalizing down; and therefore, it will be hard for MEA-MFT or the MTSBA to accept.

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Mr. Melton said that it was his idea that the obligation to bargain would remain in full force and effect. **Mr. Feaver** said that he did not want the idea to get beyond a legislative recommendation versus a legislative mandate. **SEN. RYAN** said if what **Mr. Feaver** is saying is true, the Legislature would be unable to adjust the formula if it went to a classroom entitlement. **Mr. Feaver** said that part of the Governor's objection to HB 124, the one that everyone is currently working from and not the one that passed in 2001, is that if it is not indexed, it won't work. He added that the Legislature must recognize growth over time which is exactly what it has not done. K-12, generally speaking, and teacher salaries, specifically speaking, have not kept abreast of inflation.

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REP. RASER said that approximate differentials between BASE and various other salaries are known. She asked if it were possible to increase funding according to how much more the state would probably pay for the more experienced and educated staff. **Mr. Melton** suggested that the Legislature take the rolled-up, statewide average and add the \$6,000 difference between where the state was and where it is currently. In that way, if there are rural districts with disproportionate, inexperienced staff, they will benefit from it because they will have more money to pay cheaper teachers.

{Tape: 2; Side: B; Time Counter: 4.1}

SEN. RYAN said that flexibility is needed because one of the reasons why teachers move is the fear of getting locked in to a certain salary. **SEN. STORY** said that the downside to **Mr. Melton's** suggestion is that it is the most expensive way to fix the problem. **Mr. Melton** said that MEA-MFT has shown its willingness to accept a very targeted, early teacher incentive through the loan repayment. It may be combined with a policy decision that all teachers need some increase in pay beyond that.

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REP. RASER said that one of the problems is recruiting teachers and the number of teachers who are ready to retire. The target toward the higher end of salary would give school districts flexibility to encourage teachers to stay. **Mr. Melton** said that according to statistics related to the disproportionate percentage of Montana's teaching force that is eligible to retire, it is clear that the teachers who came into the system being paid 25th in the nation, stuck around. Montana has to find a way to replicate the circumstances that lead to the creation of a generation of educators who are still largely here. **Mr. Feaver** said, unfortunately, that generation of teachers took advantage of the benefit provided by the Teachers Retirement System (TRS) that states that teachers get a free pass for benefits at 25 years of service. He added that Montana has some of the best teacher-preparation programs in the nation, so much so, that other states are predacious in their recruitment of Montana's new teacher graduates. They pay graduates to simply fill out an application, moving expenses, and full-family medical.

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SEN. RYAN hoped that the long-term solution would address the early-retirement problems. **SEN. STORY** said that the problem is that the funding system is not keeping up with the educational rate of inflation. He asked under the state's present funding system, what is the expenditure growth rate of inflation. **Mr. Melton** said that research shows that generic CPI is on goods purchased by the average consumer, whereas, education is heavily labor-oriented. If X-percent of budgets is going towards labor, the CPI for labor should be applied to that percent of the expenditures. Labor and purchased services amount to approximately 85% of the total cost. **SEN. STORY** wanted to know if educational labor and general labor were inflating at the same rate.

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REP. GLASER said that pressures are different all over the nation which exacerbates the system from what the normal education CPI is simply because of demand in other areas and the fact that Montana has been short-sheeting education since 1994. He added that if the state does not put at least an ordinary CPI in place, then it will be at the whim of every legislator's wish list for what they want to spend it on before the money becomes available for schools. The cost of inflation to schools is higher than the cost of inflation to a local donut shop which puts the state in a position of dealing with a driving force that is not real. **Mr.**

Melton said that according to Augenblick & Meyers, if a rationally constructed system is in place, a generic CPI is an appropriate way to make adjustments during the interim between the different studies that are conducted.

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Subcommittee members reiterated the information that it wanted from staff over transmittal break. In addition, it agreed to hear a presentation from **Steve Johnson, Bozeman Public Schools**, about the reduction in the number of school funding streams coming into the system.

SEN. STORY said that the LFD along with Leadership has been discussing the caps and, unless the caps law changes, the state is already over the cap. **SEN. RYAN** felt that because it was constitutionally mandated by the Court, whatever amount that the state has to spend to get education whole should be outside of the cap. **Mr. Melton** will provide a Nevada Supreme Court case that ruled that limitations on school spending was unconstitutional and in violation of the Legislature's obligation to fund schools.

ADJOURNMENT

Adjournment: 10:00 A.M.

SEN. DON RYAN, Chairman

LOIS O'CONNOR, Secretary

DR/lo

Additional Exhibits:

EXHIBIT ([jes38aad0.TIF](#))